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1/12/2011

**FORM ADV PART 2
BROCHURE**

This brochure provides information about the qualifications and business practices of Arterburn & Watters, LLP. If you have any questions about the contents of this brochure, please contact us at David Arterburn at 925-462-1120. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Arterburn & Watters, LLP is also available on the SEC's website at www.adviserinfo.sec.gov. The searchable IARD/CRD number for Arterburn & Watters, LLP is 111406.

Arterburn & Watters, LLP is a Registered Investment Adviser. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.

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Advisory Business

Form ADV Part 2A, Item 4

Description of Services and Fees

We are a registered investment adviser based in Pleasanton, California. We are organized as a limited liability partnership under the laws of the State of California. We are a fee-only independent financial adviser that provides wealth management services by incorporating financial planning, investment portfolio management, and other aggregated financial services. The combination of tax and investment experience allows our firm to provide quality advisory services to our clients. David Arterburn and Edith Anne Watters are Arterburn & Watters, LLP's principal owners.

The following paragraphs describe our services and fees. Please refer to the description of the investment advisory services listed below for information on how we tailor our advisory services to your individual needs. As used in this Brochure, the words "we", "our" and "us" refer to Arterburn & Watters, LLP and the words "you", "your" and "client" refer to you as either a client or prospective client of our firm. Also, you may see the term Associated Person throughout this Brochure. As used in this Brochure, our Associated Persons are our firm's officers, employees, and all individuals providing investment advice on behalf of our firm.

Wealth Management Services

Our Wealth Management Services includes financial planning and portfolio management. Our investment advice is tailored to meet our clients' needs and investment objectives. Once you have retained our firm, we will gather information about your financial situation and objectives, and assist you in determining your investment goals, objectives, risk tolerance, and retirement plan time horizon. Depending upon the service you contract for with our firm we will create a written financial plan for you and/or provide you with recommendations as to how to allocate your investments among categories of assets. We will then review your account on a continuous basis. Where appropriate, we will provide you with recommendations to change your asset allocation in an effort to remain consistent with your stated financial objectives. You are free at all times to accept or reject any of our investment recommendations.

We charge an hourly fee for our Wealth Management Services. Our hourly fee is generally up to \$300 per hour, which may be negotiable depending on the estimated amount of work involved, and the scope and complexity of the requested services. The final fee shall be clearly set forth in the executed agreement for services signed by you and our firm. You are also responsible for out-of-pocket expenses, e.g. postage, travel, copies incurred by us. Our fees and expenses will be billed quarterly in arrears, and are due and payable upon receipt.

We will send you an invoice for the payment of our advisory fee, or we will deduct our fee directly from your account through the qualified custodian holding your funds and securities. We will deduct our advisory fee only when you have given our firm written authorization permitting the fees to be paid directly from your account. Further, the qualified custodian will deliver an account statement to you at least quarterly. These account statements will show all disbursements from your account. You should review all statements for accuracy. We will also receive a duplicate copy of your account statements.

You may terminate the investment advisory agreement by providing 10 days' written notice to our firm. You will incur a pro rata charge for services rendered prior to the termination of the investment advisory agreement, which means you will incur advisory fees only in proportion to the time we spend on your account prior to termination.

Types of Investments

We primarily offer advice on exchange traded funds ("ETF"s) and mutual funds. We may also offer advice on equity securities, warrants, corporate debt securities, commercial paper, certificates of deposit, municipal securities, U.S. Government securities, options contracts on securities, and interest in partnerships investing in real estate and oil and gas interests, and others.

You may request that we refrain from investing in particular securities or certain types of securities. You must provide these restrictions to our firm in writing.

Assets Under Management

As of December 31, 2010 we manage \$82,000,000 in client assets on a non-discretionary basis.

Fees and Compensation

Form ADV Part 2A, Item 5

Please refer to the "Advisory Business" section in this Brochure for information on our advisory fees, fee deduction arrangements, and refund policy according to each service we offer.

Additional Fees and Expenses

As part of our investment advisory services to you, we may invest, or recommend that you invest, in mutual funds and exchange traded funds. The fees that you pay to our firm for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds or exchange traded funds (described in each fund's prospectus) to their shareholders. These fees will generally include a management fee and other fund expenses. You will also incur transaction charges and/or brokerage fees when purchasing or selling securities. These charges and fees are typically imposed by the broker-dealer or custodian through which your account transactions are executed. We do not share in any portion of the brokerage fees/transaction charges imposed by the broker-dealer or custodian. To fully understand the total cost you will incur, you should review all the fees charged by mutual funds, exchange traded funds, our firm, and others. For information on our brokerage practices, please refer to the "Brokerage Practices" section of this Brochure.

Performance-Based Fees and Side-By-Side Management

Form ADV Part 2A, Item 6

We do not accept performance-based fees or participate in side-by-side management. Performance-based fees are fees that are based on a share of capital gains or capital appreciation of a client's account. Side-by-side management refers to the practice of managing accounts that are charged performance-based fees while at the same time managing accounts that are not charged performance-based fees. Our fees are calculated as described in the *Advisory Business* section above, and are not charged on the basis of a share of capital gains upon, or capital appreciation of, the funds in your advisory account.

Types of Clients

Form ADV Part 2A, Item 7

We offer investment advisory services to individuals, pension and profit sharing plans, trusts, charitable organizations, and family partnerships.

In general, we do not require a minimum of amount to open and maintain an advisory account.

Methods of Analysis, Investment Strategies and Risk of Loss

Form ADV Part 2A, Item 8

Our Methods of Analysis and Investment Strategies

We may use one or more of the following methods of analysis or investment strategies when providing investment advice to you:

- Long Term Purchases – securities purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year.
- Short Term Purchases – securities purchased with the expectation that they will be sold within a relatively short period of time, generally less than one year, to take advantage of the securities' short term price fluctuations.
- Margin Transactions – a securities transaction in which an investor borrows money to purchase a security, in which case the security serves as collateral on the loan.
- Options Writing – a securities transaction that involves selling an option. An option is the right, but not the obligation, to buy or sell a particular security at a specified price before the expiration date of the option. When an investor sells an option, he or she must deliver to the buyer a specified number of shares if the buyer exercises the option. The seller pays the buyer a premium (the market price of the option at a particular time) in exchange for writing the option.

Our approach to investing is to provide a diversified portfolio consisting primarily of Exchange Traded Funds ("ETFs") and mutual funds that track an index based on market expectations for return, risk, and correlation of asset classes. The portfolio is constructed based on the client's goals, tolerance for risk, and income tax situation. Our investment strategies and advice may vary depending upon each client's specific financial situation. Your restrictions and guidelines may affect the composition of your portfolio.

Risk of Loss

Investing in securities involves risk of loss that you should be prepared to bear. We do not represent or guarantee that our services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. We cannot offer any guarantees or promises that your financial goals and objectives will be met. Past performance is in no way an indication of future performance.

Recommendation of Particular Types of Securities

As disclosed under the "Advisory Business" section in this Brochure, we primarily recommend mutual funds and ETFs however; we may recommend other types of investments as appropriate for you since each client has different needs and different tolerance for risk. Each type of security has its own unique set of risks associated with it and it would not be possible to list here all of the specific risks of every type of investment. Even within the same type of investment, risks can vary widely. However, in very general terms, the higher the anticipated return of an investment, the higher the risk of loss associated with it.

Mutual funds and exchange traded funds are professionally managed collective investment systems that pool money from many investors and invest in stocks, bonds, short-term money market instruments, other mutual funds, other securities or any combination thereof. The fund will have a manager that trades the fund's investments in accordance with the fund's investment objective. While mutual funds and ETFs generally provide diversification, risks can be significantly increased if the fund is concentrated in a particular sector of the market, primarily invests in small cap or speculative companies, uses leverage (i.e., borrows money) to a significant degree, or concentrates in a particular type of security (i.e., equities) rather than balancing the fund with different types of securities. Exchange traded funds differ from mutual funds since they can be bought and sold throughout the day like stock and their price can fluctuate throughout the day. The returns on mutual funds and ETFs can be reduced by the costs to manage the funds. Also, while some mutual funds are "no load"

and charge no fee to buy into, or sell out of, the fund, other types of mutual funds do charge such fees which can also reduce returns. Mutual funds can also be "closed end" or "open end". So-called "open end" mutual funds continue to allow in new investors indefinitely which can dilute other investors' interests.

Disciplinary Information

Form ADV Part 2A, Item 9

Arterburn & Watters, LLP has been registered and providing investment advisory services since 2001, and David Arterburn has been registered as either an investment adviser representative or registered representative since 2001. Neither our firm nor Mr. Arterburn has any reportable disciplinary information.

Other Financial Industry Activities and Affiliations

Form ADV Part 2A, Item 10

Arterburn & Watters, LLP is also a full service accounting firm. If you require accounting services, we will recommend that you use our services as certified public accounts, offering accounting and consulting related services. Our accounting services include, but are not limited to, accounting, tax planning and preparation for individuals and business entities. Our advisory services are separate and distinct from the compensation paid to our firm for accounting services. Edith Anne Watters, Partner of our firm, spends all of her professional time in her capacity as a certified public accountant and does not offer investment advisory services. David Arterburn, Partner of our firm, splits his professional time between accounting and advisory related activities.

Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Form ADV Part 2A, Item 11

Description of Our Code of Ethics

We strive to comply with applicable laws and regulations governing our practices. Therefore, our Code of Ethics includes guidelines for professional standards of conduct for our Associated Persons. Our goal is to protect your interests at all times and to demonstrate our commitment to our fiduciary duties of honesty, good faith, and fair dealing with you. All of our Associated Persons are expected to adhere strictly to these guidelines. Our Code of Ethics also requires that certain persons associated with our firm submit reports of their personal account holdings and transactions to a qualified representative of our firm who will review these reports on a periodic basis. Persons associated with our firm are also required to report any violations of our Code of Ethics. Additionally, we maintain and enforce written policies reasonably designed to prevent the misuse or dissemination of material, non-public information about you or your account holdings by persons associated with our firm.

Our Code of Ethics is available to you upon request. You may obtain a copy of our Code of Ethics by contacting David Arterburn at 925-462-1120.

Personal Trading Practices

Our firm or persons associated with our firm may buy or sell the same securities that we recommend to you or securities in which you are already invested. A conflict of interest exists in such cases because we have the ability to trade ahead of you and potentially receive more favorable prices than you will receive. To mitigate this conflict of interest, it is our policy that neither our Associated Persons nor we shall have priority over your account in the purchase or sale of securities.

Brokerage Practices

Form ADV Part 2A, Item 12

Recommendation of Broker-Dealers

We recommend the brokerage and custodial services the Schwab Advisor Services division of Charles Schwab & Co., Inc. ("Schwab"), a securities broker-dealer and a member of the Securities Investor Protection Corporation.

Although we may recommend that clients establish accounts at Schwab, it is your decision to custody assets with Schwab. We are independently owned and operated and not affiliated with Schwab. Schwab provides us with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the advisor's clients' assets are maintained in accounts at Schwab Advisor Services. These services are not otherwise contingent upon us committing to Schwab any specific amount of business (assets in custody or trading commissions). Schwab's brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For our client accounts maintained in its custody, Schwab generally does not charge separately for custody services but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through Schwab or that settle into Schwab accounts. We believe that Schwab provides quality execution services for you at competitive prices. Price is not the sole factor we consider in evaluating best execution. We also consider the quality of the brokerage services provided by Schwab, including the value of research provided, the firm's reputation, execution capabilities, commission rates, and responsiveness to our clients and our firm. In recognition of the value of research services and additional brokerage products and services Schwab provides, you may pay higher commissions and/or trading costs than those that may be available elsewhere.

Research and Other Benefits

Schwab Advisor Services makes available to us other products and services that benefit us but may not directly benefit our clients' accounts. Many of these products and services may be used to service all or some substantial number of our accounts, including accounts not maintained at Schwab.

Schwab's products and services that assist us in managing and administering your' accounts include software and other technology that (i) provide access to your account data (such as trade confirmations and account statements); (ii) facilitate trade execution and allocate aggregated trade orders for multiple client accounts; (iii) provide research, pricing and other market data; (iv) facilitate payment of our fees from your account; and (v) assist with back-office functions, recordkeeping and client reporting.

Schwab Advisor Services also offers other services intended to help us manage and further develop our business enterprise. These services may include: (i) compliance, legal and business consulting; (ii) publications and conferences on practice management and business succession; and (iii) access to employee benefits providers, human capital consultants and insurance providers. Schwab may make available, arrange and/or pay third-party vendors for the types of services rendered to us. Schwab Advisor Services may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to us. Schwab Advisor Services may also provide other benefits such as educational events or occasional business entertainment to us.

Block Trades

We do not combine multiple orders for shares of the same securities purchased for advisory accounts we manage (the practice of combining multiple orders for shares of the same securities is commonly referred to as "block trading"). Accordingly, you may pay different prices for the same securities transactions than other clients pay. Furthermore, we may not be able to buy and sell the same quantities of securities for you and you may pay higher commissions, fees, and/or transaction costs than other clients.

Review of Accounts

Form ADV Part 2A, Item 13

David Arterburn, Partner of Arterburn & Watters, LLP will monitor your account on an ongoing basis and will conduct account reviews at least annually and upon your request to ensure that the advisory services provided to you are consistent with your stated investment needs and objectives. Additional reviews may be conducted based on various circumstances, including, but not limited to:

- contributions and withdrawals;
- year-end tax planning;
- market moving events;
- security specific events; and/or,
- changes in your risk/return objectives.

We will provide you with additional quarterly written reports in conjunction with account reviews. Reports we provide to you will contain relevant account and/or market-related information such as an inventory of account holdings and account performance. In addition, you will receive trade confirmations and monthly or quarterly statements from your account custodian(s).

Client Referrals and Other Compensation

Form ADV Part 2A, Item 14

Our firm does not receive economic benefit from anyone who is not a client for providing investment advice or other advisory services to you.

Custody

Form ADV Part 2A, Item 15

We do not directly debit advisory fees from your account and we do not exercise custody over your funds or securities. Your funds and securities will be held with a bank, broker-dealer, or other independent, qualified custodian. If you have a question regarding your account statement or if you did not receive a statement from your custodian, please contact your custodian directly.

Investment Discretion

Form ADV Part 2A, Item 16

We do not exercise investment discretion over your account(s). Therefore, we will obtain your approval prior to the execution of any transactions for your account(s).

Voting Client Securities

Form ADV Part 2A, Item 17

We will not vote proxies on behalf of your advisory accounts. At your request, we may offer you advice regarding corporate actions and the exercise of your proxy voting rights. If you own shares of common stock or mutual funds, you are responsible for exercising your right to vote as a shareholder.

In most cases, you will receive proxy materials directly from the account custodian. However, in the event we were to receive any written or electronic proxy materials, we would forward them directly to you by mail, unless you have authorized our firm to contact you by electronic mail, in which case, we would forward any electronic solicitation to vote proxies.

Financial Information

Form ADV Part 2A, Item 18

We are not required to provide financial information to our clients because we do not:

- require the prepayment of more than \$1,200 in fees and six or more months in advance, or
- take custody of client funds or securities, or
- have a financial condition that is reasonably likely to impair our ability to meet our commitments to you.

Requirements for State-Registered Advisers

Form ADV Part 2A, Item 19

Education and Business Background of Management Person

David K. Arterburn

Year of Birth: 1951

Formal Education After High School:

- B.S.B.A., University of Arkansas, Accounting, 1976.

Business Background for the Previous Five Years:

- Arterburn & Watters, LLP, Managing Partner/CCO, 04/1998 – Present.

Edith A. Watters

Year of Birth: 1956

Formal Education After High School:

- B.S.B.A., San Jose State University, Accounting, 1978.
- M.S., Golden Gate University, Taxation, 1983.

Business Background for the Previous Five Years:

- Arterburn & Watters, LLP, Partner, 04/1998 - Present.

Other Business Activities

We are also an accounting firm and we may offer you accounting services in this separate capacity. Our advisory services and fees are separate and in addition to our accounting fees. You are under no obligation, contractually or otherwise, to use our firm's accounting services. We spend approximately 50% of our time providing accounting services.

Disclosure Events

Neither Arterburn & Watters, LLP nor its management persons has any reportable arbitration claims or has been found liable in a reportable civil, self-regulatory organization or administrative proceeding.

Arrangements with Issuer of Securities

Neither Arterburn & Watters, LLP nor its management persons has any relationship or arrangement with an issuer of securities.

Additional Information**Your Privacy**

We view protecting your private information as a top priority. Pursuant to applicable privacy requirements, we have instituted policies and procedures to ensure that we keep your personal information private and secure.

We do not disclose any nonpublic personal information about you to any nonaffiliated third parties, except as permitted by law. In the course of servicing your account, we may share some information with our service providers, such as transfer agents, custodians, broker-dealers, accountants, consultants, and attorneys.

We restrict internal access to nonpublic personal information about you to employees who need that information in order to provide products or services to you. We maintain physical and procedural safeguards that comply with regulatory standards to guard your nonpublic personal information and to ensure our integrity and confidentiality. We will not sell information about you or your accounts to anyone. We do not share your information unless it is required to process a transaction, at your request, or required by law.

You will receive a copy of our privacy notice prior to or at the time you sign an advisory agreement with our firm. Thereafter, we will deliver a copy of the current privacy policy notice to you on an annual basis. Please contact David Arterburn at 925-462-1120 if you have any questions regarding this policy.

Trade Errors

In the event a trading error occurs in your account, our policy is to restore your account to the position it should have been in had the trading error not occurred. Depending on the circumstances, corrective actions may include canceling the trade, adjusting an allocation, and/or reimbursing the account. If a trade error results in a profit, you will keep the profit.